

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Chelsea District Library</b>	County <b>Washtenaw</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>2/23/06</b>	Date Accountant Report Submitted to State: <b>4/24/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

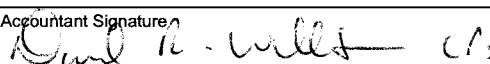
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Post, Smythe, Lutz, and Ziel, LLP</b>			
Street Address <b>1034 West Ann Arbor Trail</b>	City <b>Plymouth</b>	State <b>MI</b>	ZIP <b>48170</b>
Accountant Signature 		Date <b>4/24/06</b>	

**CHELSEA DISTRICT LIBRARY  
Washtenaw County, Michigan**

**AUDITED FINANCIAL REPORT**

**For the Fiscal Year Ended  
December 31, 2005**

CHELSEA DISTRICT LIBRARY  
For the Year Ended December 31, 2005

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## FINANCIAL SECTION

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*Certified Public Accountants*

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### Independent Auditor's Report

February 23, 2006

To the Board of Trustees  
Chelsea District Library  
Washtenaw County, Michigan

We have audited the accompanying financial statements of the governmental activities, and each major fund of Chelsea District Library as of and for the year ended December 31, 2005 which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Chelsea District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

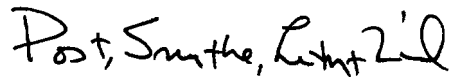
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Chelsea District Library as of December 31, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees  
Chelsea District Library  
February 23, 2006

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chelsea District Library's basic financial statements. The accompanying required supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink, appearing to read "Post, Smythe, Lutz & Ziel".

POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants

## Management's Discussion and Analysis

As management of Chelsea District Library, we offer readers of Chelsea District Library's financial statements this narrative overview and analysis of the financial activities of Chelsea District Library for the fiscal year ended December 31, 2005.

### Financial Highlights

- The assets of Chelsea District Library exceeded its liabilities at the close of the most recent fiscal year by \$2,023,054 (*net assets*). Of this amount, \$871,008 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Chelsea District Library's governmental funds reported combined ending fund balances of \$6,868,386, a decrease of \$1,730,907 in comparison with the prior year, due to spending on Library construction. Approximately 13% of this total amount, \$890,483 is *available for spending* at the district library's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$890,483.
- Chelsea District Library's total debt decreased by \$34,311 during the current fiscal year, due to payments made on the bond issue, net of increases in the PTO (Paid Time Off) obligation.
- Liabilities include a) PTO amount that may be cashed in (up to a district library defined limit) at the employees' discretion and b) employees may utilize medical care reimbursement accounts before full investment, up to the amount declared each year and within a library defined limit.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Chelsea District Library's basic financial statements. Chelsea District Library's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Chelsea District Library's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Chelsea District Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Chelsea District Library is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Chelsea District Library that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of Chelsea District Library are limited to operating the Library. The District Library has no business-type activities.

The government-wide financial statements can be found on pages 8 and 9 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Chelsea District Library, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Chelsea District Library are categorized as governmental funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Chelsea District Library maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the 2005 Library



Building and Site Capital Project Fund, and Debt Service Funds, are all considered to be major funds.

Chelsea District Library adopts an annual appropriated budget for its general fund, and a budgetary comparison statement has been provided to demonstrate compliance with this budget.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-24 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Chelsea District Library, assets exceeded liabilities by \$2,023,054 at the close of the most recent fiscal year.

	2005	2004
Current and Other Assets	\$ 7,989,705	\$ 9,707,266
Capital Assets	3,359,143	992,100
Total Assets	11,348,848	10,699,366
Long-term Liabilities	8,204,475	8,238,786
Other Liabilities	1,121,319	1,107,973
Total Liabilities	9,325,794	9,346,759
Net Assets:		
Invested in Capital Assets		
net of related debt	426,575	272,640
Restricted	725,471	315,208
Unrestricted	871,008	764,759
Total Net Assets	\$ 2,023,054	\$ 1,352,607

A significant portion of Chelsea District Library's net assets (21 percent) reflects its investment in capital assets (e.g., land, buildings, construction in progress and equipment), less any related debt used to acquire those assets that are still outstanding. Chelsea District Library used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although Chelsea District Library's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of Chelsea District Library's net assets (36 percent) represents resources that are subject to external restrictions on how they may be used. The remaining, and largest portion of *unrestricted net assets* (\$871,008) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Chelsea District Library is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year. The government's net assets increased by \$670,447 during the current fiscal year as shown in the table below:

	2005	2004
Program Revenues:		
Charges for Services	\$ 20,829	\$ 28,117
Operating Grants & Contributions	44,057	52,991
Capital Grants & Contributions	368,149	272,951
General Revenues:		
Property Taxes	1,597,298	1,046,764
Unrestricted Investment Earnings	130,718	64,830
Total Revenues	<u>2,161,051</u>	<u>1,465,653</u>
Program Expenses:		
Public Library	1,081,663	1,053,515
Interest on Long-Term Debt	408,941	8,590
Total Expenses	<u>1,490,604</u>	<u>1,062,105</u>
Change in Net Assets	<u>\$ 670,447</u>	<u>\$ 403,548</u>

**Governmental activities.** All of the District Library's activities are "governmental".

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Nonrecurring costs were realized in relation to fund raising costs for the capital campaign as well as building planning activities. Income (and pledges of forthcoming income) was realized from this capital campaign.

### Financial Analysis of the Government's Funds

As noted earlier, Chelsea District Library used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of Chelsea District Library's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Chelsea District Library's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Chelsea District Library's governmental funds reported combined ending fund balances of \$6,868,386 a decrease of \$1,730,907 (\$2,253,108 reduction in Capital Projects Fund due to Library construction, net of increase in general and debt service funds) in comparison with the prior year. The largest component of the total governmental fund balance is the \$5,252,432 (76%) maintained by the 2005 Library Building and Site Capital Projects Fund. These resources are restricted to pay for the costs associated with the project.

The general fund is the chief operating fund of Chelsea District Library. At the end of the current fiscal year, unreserved fund balance of the general fund was \$890,483.

Other than the expenses toward the building project, there were no significant capital expenditures. The fund balance of Chelsea District Library's general fund increased by \$489,603 during the current fiscal year, as revenues exceeded operating expenses. Of the excess revenue, \$368,149 was received through the capital campaign in support of the building project; the remaining \$121,454 excess revenue is to be invested with the capital contingency fund for use in the building project.

### **General Fund Budgetary Highlights**

No significant changes were made to the original budget appropriations.

### **Capital Asset and Debt Administration**

**Capital assets.** Chelsea District Library's investment in capital assets for its governmental activities as of December 31, 2005, amounts to \$3,359,143 (net of accumulated depreciation). This investment in capital assets includes land, buildings, construction in progress and equipment. The investment increased by \$2,367,043 (net of depreciation expense), primarily due to construction expenses associated with the 2005 Library Building and Site Program.

Details to the District's capital assets are continued in the notes to the financial statements on page 21.

**Long-term debt.** At the end of the current fiscal year, Chelsea District Library had total long term debt outstanding of \$8,204,475, all of which comprises debt backed by the full faith and credit of the government. Additional information on Chelsea District Library's long-term debt can be found in note IV.D. on page 22.

### **Economic Factors and Next Year's Budgets and Rates**

The Chelsea District Library voter adopted millage rate for general operating purposes (1.75) was reduced again by the Headlee Amendment rollback to 1.6699. As the library is not yet in its planned facility, the available library millage is larger than current needs. The library levied 1.63 for use in 2005. These factors were considered in preparing Chelsea District Library's budget for the 2006 fiscal year, therefore the millage rate for fiscal year 2006 remains at 1.63.

### **Requests for Information**

This financial report is designed to provide a general overview of Chelsea District Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chelsea District Library Director.

## BASIC FINANCIAL STATEMENTS

**CHELSEA DISTRICT LIBRARY**

**Statement of Net Assets**

**December 31, 2005**

	<b><u>Governmental Activities</u></b>
<b><u>ASSETS</u></b>	
Cash and Cash Equivalents	\$ 623,492
Investments	6,781,421
Receivables:	
Pledges	566,968
Prepaid Expenditures	17,824
Capital Assets (Net of Accumulated Depreciation)	3,359,143
Total Assets	<u>11,348,848</u>
 <b><u>LIABILITIES</u></b>	
Accounts Payable	421,628
Accrued Liabilities	15,894
Deferred Revenue	683,797
Non Current Liabilities:	
Due within one year	209,475
Due in more than one year	7,995,000
Total Liabilities	<u>9,325,794</u>
 <b><u>NET ASSETS</u></b>	
Invested in Capital Assets, net of related debt	426,575
Restricted for:	
Debt Service	35,319
Other	40,680
Capital Projects	649,472
Unrestricted	871,008
Total Net Assets	<u>\$ 2,023,054</u>

**CHELSEA DISTRICT LIBRARY**  
**Statement of Activities**  
**For the Year Ended December 31, 2005**

<b><u>Functions/Programs</u></b>	<b>Program Revenues</b>				<b>Net (Expense) Revenue and Changes in Net Assets</b>
	<b><u>Expenses</u></b>	<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>	
<b>Primary Government:</b>					
Governmental Activities:					
Public Library	\$ 1,081,663	\$ 20,829	\$ 44,057	\$ 368,149	\$ (648,628)
Interest on Long-Term Debt	408,941	-	-	-	(408,941)
Total Governmental Activities	<u>\$ 1,490,604</u>	<u>\$ 20,829</u>	<u>\$ 44,057</u>	<u>\$ 368,149</u>	<u>(1,057,569)</u>
General Revenues:					
Property Taxes					1,597,298
Unrestricted Investment Earnings					130,718
Total General Revenues and Transfers					<u>1,728,016</u>
Change in Net Assets					670,447
Net Assets - Beginning					<u>1,352,607</u>
Net Assets - Ending					<u>\$ 2,023,054</u>

**CHELSEA DISTRICT LIBRARY****Balance Sheet****Governmental Funds****December 31, 2005**

	General	2005 Library Building and Site Capital Project Bond Fund	Debt Service Fund	Total Governmental Funds
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 432,918	\$ 126,069	\$ 64,505	\$ 623,492
Investments	1,244,005	5,537,416	-	6,781,421
Due from Other Funds	9,002	-	-	9,002
Prepaid Expenditures	17,824	-	-	17,824
Total Assets	<u>\$ 1,703,749</u>	<u>\$ 5,663,485</u>	<u>\$ 64,505</u>	<u>\$ 7,431,739</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Accounts Payable	\$ 19,577	\$ 402,051	\$ -	\$ 421,628
Deferred Revenue	87,643	-	29,186	116,829
Accrued and Other Liabilities	15,894	-	-	15,894
Due to Other Funds	-	9,002	-	9,002
Total Liabilities	<u>123,114</u>	<u>411,053</u>	<u>29,186</u>	<u>563,353</u>
Fund Balances:				
Reserved for:				
Capital Projects	-	5,252,432	-	5,252,432
Debt Service	-	-	35,319	35,319
Reserved for Designated Gifts:				
Belser Memorial Fund	2,167	-	-	2,167
Friends & Volunteers Fund	31,653	-	-	31,653
Christy Gutekunst Memorial Fund	1,810	-	-	1,810
Children's Area Fund	5,050	-	-	5,050
Capital Campaign Fund	649,472	-	-	649,472
Unreserved:				
Designated:				
Contingency Fund	655,505	-	-	655,505
Undesignated	234,978	-	-	234,978
Total Fund Equity	<u>1,580,635</u>	<u>5,252,432</u>	<u>35,319</u>	<u>6,868,386</u>
Total Liabilities and Fund Equity	<u>\$ 1,703,749</u>	<u>\$ 5,663,485</u>	<u>\$ 64,505</u>	

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital Assets used in governmental activities are not financial resources and,  
therefore, are not reported in the funds.

3,359,143

Long-term liabilities, including bonds payable, are not due and payable in the  
current period and therefore are not reported in the funds.

(8,204,475)

Net Assets of Governmental Activities

\$ 2,023,054

**CHELSEA DISTRICT LIBRARY**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended December 31, 2005**

	General	2005 Library Building and Site Capital Project Bond Fund	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$ 1,116,528	\$ -	\$ 480,770	\$ 1,597,298
State Aid	12,260	-	-	12,260
Penal Fines	27,465	-	-	27,465
Circulation Fines	14,591	-	-	14,591
Charges for Services	6,085	-	-	6,085
Interest	21,175	108,774	769	130,718
Donations-Collections	1,143	-	-	1,143
Donations-Other	189	-	-	189
Donations-Capital Campaign	368,149	-	-	368,149
Grants	3,000	-	-	3,000
Other	153	-	-	153
	<u>1,570,738</u>	<u>108,774</u>	<u>481,539</u>	<u>2,161,051</u>
<b>Expenditures</b>				
Wages	508,037	-	-	508,037
FICA	38,421	-	-	38,421
Fringe Benefits	16,109	-	-	16,109
Collection Expense	126,396	-	-	126,396
Advertising	9,020	-	-	9,020
Banking Fees	419	-	-	419
Board Expenses	2,706	-	-	2,706
Capital Outlay	48,619	2,361,882	-	2,410,501
Computer Upgrades	7,889	-	-	7,889
Copier	6,711	-	-	6,711
Insurance	12,116	-	-	12,116
Maintenance	1,078	-	-	1,078
Memberships	3,913	-	-	3,913
Newsletter	12,207	-	-	12,207
Postage	3,932	-	-	3,932
Printing	524	-	-	524
Professional Services	43,786	-	-	43,786
Program Events	29,593	-	-	29,593
Promotional Publication	7,535	-	-	7,535
Rent	125,049	-	-	125,049
Small Equipment	3,961	-	-	3,961
Supplies	19,374	-	-	19,374
Telecommunications	13,383	-	-	13,383
TLN Automation and Co-Op	20,789	-	-	20,789
Travel	18,159	-	-	18,159
Utilities	1,409	-	-	1,409
Debt Service-Principal	-	-	40,000	40,000
Debt Service-Interest and Fees	-	-	408,941	408,941
Total Expenditures	<u>1,081,135</u>	<u>2,361,882</u>	<u>448,941</u>	<u>3,891,958</u>
Excess (Deficiency) of Revenues Over Expenditures	489,603	(2,253,108)	32,598	(1,730,907)
Fund Balances - Beginning	<u>1,091,032</u>	<u>7,505,540</u>	<u>2,721</u>	<u>8,599,293</u>
Fund Balances - Ending	\$ <u>1,580,635</u>	\$ <u>5,252,432</u>	\$ <u>35,319</u>	\$ <u>6,868,386</u>



**CHELSEA DISTRICT LIBRARY**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended December 31, 2005**

Amounts reported for governmental activities in the statement of activities (page 9) are different because:

Net change in fund balances - total governmental funds (page 11)	\$ (1,730,907)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,367,043
This amount is the net effect of these differences in the treatment of long-term debt and related items.	40,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(5,689)</u>
Change in net assets in governmental activities (page 9)	\$ <u><u>670,447</u></u>

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Chelsea District Library was formed in 1998 by the Village of Chelsea (now the City of Chelsea) , and Dexter, Lima, Lyndon, and Sylvan Townships when they entered into a District Library Agreement. Under the terms of the agreement, these municipalities agreed that the District Library should serve their residents but that the residents must approve the formation of the District Library by adopting an operating millage that would be sufficient to pay the expenses of the library serving this population. This millage was approved on October 5, 1999 by the residents of the newly established Chelsea District Library.

The Chelsea District Library serves the residents of the City of Chelsea, and Lyndon and Sylvan Township in their entirety. It also serves residents of Lima and Dexter Township that are also residents of the area served by Chelsea Schools as well as residents of the Pinckney School District in Dexter Township.

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity," the financial statements of the Chelsea District Library contain all the Library's funds for which the Library is financially accountable and the nature and significance of their relationship with the District Library are such that exclusion would cause the Library's financial statements to be misleading or incomplete.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental Funds

The Library reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The 2005 Library Building and Site Capital Project Funds account for the resources from the bond proceeds for construction of the new building, renovation of the old structure, and site improvements.

The 2005 Library Building and Site Debt Service Funds, used to account for the special voted tax millage to pay interest and principal on the debt issued to finance the above mentioned construction activities.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as needed.

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Library to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

The Library had no trade or taxes receivables as of December 31, 2005. There was a small inter fund loan/advance between the General Fund and Capital Project Fund, as a result of pooled investments at year end, which has been subsequently cleared.

In addition, the Library has an outstanding pledge receivable balance relating to the financing of the new facility. See note V. B.

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

3. Capital Assets

Capital assets, which include property, plant, equipment, are reported in the governmental activities column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, equipment and furniture of the Library are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-30
Equipment and Furniture	3-15

4. Compensated Absences

Under current policy set by the District Library Board, certain individual employees have a vested right to receive payments for unused vacation, sick leaves and other benefits under formulas and conditions specified in the contracts. A liability for these amounts is reported in the governmental funds only if they are paid. The long term portion of these amounts are reported as a liability in the Statement of Net Assets. Management has determined that the liability at December 31, 2005 is \$19,475.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

5. Long-term Obligations – Continued

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$8,204,475 difference are as follows:

General Obligation Bonds Payable	\$8,185,000
Compensated Absences Payable	<u>19,475</u>
	<u>\$8,204,475</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – Continued

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities – Continued

expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$2,367,043 difference are as follows:

Capital Outlay	\$ 2,414,403
Depreciation Expense	<u>(47,360)</u>
	<u>\$ 2,367,043</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

1. Budgets must be adopted for the General Fund.
2. Budgets must be balanced.
3. Budgets must be amended as necessary.
4. Public hearings must be held prior to adoption.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget appropriation prior to being incurred.

The Library follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to December 1, the Library Director submits a proposed operating budget for the ensuing fiscal year commencing January 1. The Board adopts the budget at the live item level.
2. Public hearings are conducted at the Library to obtain taxpayer comments.
3. Prior to December 31, the budgets are legally enacted at the live item level for the General Fund.
4. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
5. Budget appropriations lapse at year end.
6. The Library does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds.
7. Budgeted amounts are reported as originally adopted, or as amended by the District Library Board.
8. Budget appropriations were amended during 2005.

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The Library has no funds with accumulated fund balance deficits.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

During the year ended December 31, 2005, the Library did incur expenditures in excess of the amounts appropriated, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
FICA	\$ 37,052	\$ 38,421	\$ 1,369
Rent	125,001	125,049	48

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law the Library is permitted to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library's cash and investments are subject to several types of risk, which are detailed below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be recovered. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2005, the Library's book balance of its deposits was \$623,282; the total book balance was \$623,492, due to \$210 in cash on hand. The bank balance was \$652,965 which was exposed to custodial credit risk, as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 201,409
Uninsured and Uncollateralized	451,556
Total	<u>\$ 652,965</u>



CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments - Continued

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Library's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government and agency securities:		
Federal Home Loan Mortgage Corporation	\$ 3,866,314	74 days
Federal Home Loan Mortgage Corporation	651,520	90 days
Cash Management Money Market M.I.L.A.F.	2,263,587	On Demand

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. government agency securities	\$ 4,517,834	AAA	Standard & Poors
Investment pool - Cash Management Money Market (M.I.L.A.F.)	2,263,587	AAA	Standard & Poors

Concentration of Credit Risk

The Library places no limit on the amount the Library may invest in any one issuer. The Library has more than 5 percent of its investments in the following:

M.I.L.A.F. Cash Management Accounts	\$ 2,263,587	33%
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CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government and agency securities	\$ 4,517,834	Counterparty
Money Market -		
Cash Management Money Market	<u>2,263,587</u>	Counterparty
	<u>\$ 6,781,421</u>	

B. Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 213,191	\$ -	\$ -	213,191
Construction in Progress	<u>640,835</u>	<u>2,361,882</u>	<u>-</u>	<u>3,002,717</u>
	<u>854,026</u>	<u>2,361,882</u>	<u>-</u>	<u>3,215,908</u>
Capital Assets, being depreciated:				
Building and Improvements	411,069	-	-	411,069
Equipment and Furniture	<u>382,575</u>	<u>52,521</u>	<u>-</u>	<u>435,096</u>
	<u>793,644</u>	<u>52,521</u>	<u>-</u>	<u>846,165</u>
Less: Accumulated Depreciation:				
Building and Improvements	(411,069)	-	-	(411,069)
Equipment and Furniture	<u>(244,501)</u>	<u>(47,360)</u>	<u>-</u>	<u>(291,861)</u>
	<u>(655,570)</u>	<u>(47,360)</u>	<u>-</u>	<u>(702,930)</u>
Governmental Activities				
Capital Assets, net	\$ <u>992,100</u>	\$ <u>2,367,043</u>	\$ <u>-</u>	\$ <u>3,359,143</u>

Depreciated expense was charged to functions of the Library as follows:

Public Library	\$ <u>47,360</u>
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CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Inter Fund Receivables, Payables

The correction of inter fund balance as of December 31, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Project	<u>\$ 9,002</u>

The balance represents uncleared pooled investments.

D. Long-Term Debt

The following is a summary of long-term debt transactions of the Library for the year ended December 31, 2005:

	<u>Balance January 1,</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31,</u>	<u>Balance Within 1 Yr.</u>
Gov. Activities:					
G.O. Bonds	\$ 8,225,000	\$ -	\$ 40,000	\$ 8,185,000	\$ 190,000
Comp. Absences	13,786	5,689	-	19,475	-
	<u>\$ 8,238,786</u>	<u>\$ 5,689</u>	<u>\$ 40,000</u>	<u>\$ 8,204,475</u>	<u>\$ 190,000</u>

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the Library as of December 31, 2005:

	<u>Number of Issues</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Governmental Activities:				
General Obligation Bonds	1	3.00%-4.65%	2024	<u>\$ 8,185,000</u>

The annual debt service requirements to maturity for debt outstanding as of December 31, 2005 is as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 190,000	\$ 323,402
2007	230,000	317,102
2008	265,000	309,677
2009	295,000	301,277
2010	325,000	291,571
2011-2015	1,900,000	1,267,200
2016-2020	2,480,000	835,330
2021-2024	<u>2,500,000</u>	<u>234,981</u>
	<u>\$ 8,185,000</u>	<u>\$ 3,880,540</u>

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

IV. DETAILED NOTES ON ALL FUNDS – Continued

E. Property Taxes

As of December 31, 2005 the Library was permitted to levy 1.75 mills effective with the 1999 tax roll through the 2019 roll. No revenue for the 2005 winter tax roll is recognized for the year ended December 31, 2005. Under State Law, these collections must be “deferred” and recognized as revenue in the fiscal year ending December 31, 2006.

As of December 31, 2005 the Library was permitted to levy the following taxes:

				Less:			
				Required	Maximum	2004	
				Reductions	Allowable	Tax	
<u>Source</u>	<u>Purpose</u>	<u>Date of</u>	<u>Maximum</u>	<u>(State Law)</u>	<u>Millage</u>	<u>Levy</u>	<u>Margin</u>
Voted	Operating	10/99	1.75 mills	(.0801)	1.6699	1.6300	.0399

F. Operating Lease

The District Library entered into a lease agreement with the Chelsea School District in December of 2005, which extended the lease on the building housing the Library through October 31, 2006. The prior lease concluded December 31, 2005. Terms are as follows:

- Monthly payments of \$10,552 per month.
- Utilities, heat, water and electricity included in monthly lease fee.
- Maintenance and other executory costs are the responsibility of the lessor.
- Lease can be extended on a “month to month” basis with 60 day notice.

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

Plan Description

The District Library does not maintain a retirement system for its employees. It does however provide a “cafeteria” type benefit arrangement where employees can choose from Code Section 457 deferred compensation “pick-up” contributions, or health insurance benefits. During the year ended December 31, 2005 the expense of these “pick-up contributions” was \$20,458.

CHELSEA DISTRICT LIBRARY  
Notes to Financial Statements  
December 31, 2005

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

Since the Plan assets were placed in a custodial account in accordance with changes made to IRC 457 deferred compensation plans, and the assets of the plan are for the exclusive benefit of the Library's employees, no assets or liabilities of the Plan are included in the Library's statements.

B. Building Project

On May 4, 2005 the voters of the District Library approved a proposal to allow the Library to issue \$8,225,000 in Unlimited Tax General Obligation Bonds, to partially finance renovations, equipping, expanding and furnishing the existing library building, along with site improvements. The total project cost is expected to exceed \$9.3 million, and the additional funding is expected to be accomplished with the proceeds of the District's Capital Campaign. Provided below is the status of the Campaign as of December 31, 2005:

Amounts Received – 2004	<u>\$ 272,951</u>
Amounts Received – 2005	<u>\$ 368,145</u>
Balance Due in Future Periods	<u>\$ 566,968</u>

The balance due in future periods has been recorded as a receivable, with an offset to deferred revenues, on the Statement of Net Assets. In addition, the District Library Board has designated \$655,505 to cover "contingencies" on the project, from unrestricted resources.

C. Risk Management

The Chelsea District Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library maintains commercial insurance coverage covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage for the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

**CHELSEA DISTRICT LIBRARY**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended December 31, 2005**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance- Favorable (Unfavorable)</b>
Revenues:				
Property Taxes	\$ 1,110,827	\$ 1,110,827	\$ 1,116,528	\$ 5,701
State Aid	6,000	6,000	12,260	6,260
Penal Fines	25,000	25,000	27,465	2,465
Circulation Fines	13,000	13,000	14,591	1,591
Charges for Services-Copier and Printer	2,800	2,800	3,269	469
Charges for Services-Non Resident Fees	-	-	2,236	2,236
Charges for Services-Other	120	120	580	460
Interest	7,000	7,000	21,175	14,175
Donations-Collections	-	-	1,143	1,143
Donations-Other	1,000	1,000	189	(811)
Donations-Capital Campaign	-	-	368,149	368,149
Grants	-	-	3,000	3,000
Other-Book Sale	-	-	153	153
Total Revenues	<u>1,165,747</u>	<u>1,165,747</u>	<u>1,570,738</u>	<u>404,991</u>
Expenditures:				
Wages	508,056	511,626	508,037	3,589
FICA	37,052	37,052	38,421	(1,369)
Fringe Benefits	19,240	19,240	16,109	3,131
Collection Expense	126,935	127,735	126,396	1,339
Advertising	10,100	10,100	9,020	1,080
Banking Fees	270	800	419	381
Board Expenses	3,412	3,412	2,706	706
Capital Outlay	20,900	53,500	48,619	4,881
Computer Upgrades	3,000	10,000	7,889	2,111
Copier	7,700	7,700	6,711	989
Insurance	15,600	15,600	12,116	3,484
Maintenance	2,500	2,500	1,078	1,422
Memberships	4,030	4,030	3,913	117
Newsletter	14,100	14,100	12,207	1,893
Postage	5,015	5,015	3,932	1,083
Printing	1,400	1,400	524	876
Professional Services	42,800	59,200	43,786	15,414
Programming	32,300	30,300	29,593	707
Promotional Publication	10,600	10,600	7,535	3,065
Rent	124,716	125,001	125,049	(48)
Small Equipment	5,000	4,000	3,961	39
Supplies	25,500	19,500	19,374	126
Telecommunications	15,300	14,300	13,383	917
TLN Automation and Co-Op	21,800	21,800	20,789	1,011
Travel	24,500	24,500	18,159	6,341
Utilities	-	2,000	1,409	591
Volunteer Program	1,050	1,050	-	1,050
Capital Improvement Fund	44,637	31,486	-	31,486
Technology Improvement Fund	38,234	-	-	-
Total Expenditures	<u>1,165,747</u>	<u>1,167,547</u>	<u>1,081,135</u>	<u>86,412</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ <u>-</u>	\$ <u>(1,800)</u>	489,603	\$ <u>491,403</u>
Fund Balance, January 1			<u>1,091,032</u>	
Fund Balance, December 31			\$ <u><u>1,580,635</u></u>	

# POST, SMYTHE, LUTZ AND ZIEL LLP

*Certified Public Accountants*

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Therese Mulholland, C.P.A.

February 27, 2006

Board of Trustees  
Chelsea District Library  
Washtenaw County, Michigan

Our audit of the financial statements of Chelsea District Library for the year ended December 31, 2005 has been completed and was conducted in accordance with generally accepted auditing standards which require that we determine that existing internal controls, accounting procedures and accounting records are adequate to allow us to express an opinion on the financial statements of the District Library. The scope of our audit is not intended to be a detailed review of all systems and procedures; therefore, this report should not be considered all inclusive.

### Cash Receipts/Capital Campaign

We suggest that the Library consider some changes to the existing procedures:

- Pledge payments should be recorded in a separate general ledger line item for "Capital Campaign" donations. We were informed by the Library Director that this process is now in place.
- Accounting software (rather than an excel spreadsheet) should be used to track pledge payments and balances.
- We suggest that the cash receipts posted in the accounting records be reconciled to the campaign records on a monthly basis.

### Accounting Software

The Library currently uses an "off the shelf" low cost accounting package designed for small private businesses. This software has provided the Library with an inexpensive solution (combined with the use of third party payroll) for basic needs. The software is not designed to meet the needs of local government, nor does it have the internal control features one would find in a program designed for local government. We suggest that the Library consider accounting software designed to better meet its needs.



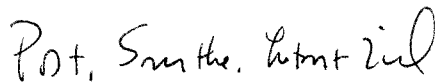
Other Internal Control Matters

To further improve internal control, and cash flow, we suggest the following:

- Consider "positive pay" which is a service offered by banks which records pertinent information about each check such as the amount, the check number, bank information and date, and then transmits it to the bank to be verified, before the check can be paid. This will help insure that only authorized payments are paid by the bank.
- Establish a separate payroll checking account with an imprest balance, and limit the dollar amount of the "typical" payroll checks to a specific amount. Many banks offer a service which automatically returns checks unpaid if they exceed a given dollar limit.
- Consider using a "lock box" (already in place for Capital Campaign) for larger payments such as property taxes and penal fines. Use of "lock boxes" can speed up the cash flow and improve internal control.

We appreciate the courtesy extended to us by you during the course of our examination. We would be pleased to provide additional assistance if you desire.

Sincerely,

  
POST, SMYTHE, LUTZ and ZIEL LLP  
Certified Public Accountants